



OFFICE OF THE SECRETARY OF DEFENSE
WASHINGTON, DC 20301



MAY 25 2006

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
COMMANDER, UNITED STATES SPECIAL OPERATIONS
COMMAND
DIRECTOR, DEFENSE THREAT REDUCTION AGENCY

SUBJECT: Management Assertion Process for Military Equipment

The Federal Financial Management Improvement Act of 1996 requires, among other things, that Federal agencies comply with the accounting standards issued by the Federal Accounting Standards Advisory Board (FASAB). In 2003, FASAB issued Statement of Federal Financial Accounting Standards (SFFAS) 23, "Eliminating the Category National Defense, Property, Plant and Equipment," which requires the capitalization and depreciation of military equipment. In response, the Department of Defense initiated a project to capture the information needed to comply with SFFAS 23 and, even more importantly, to improve the information available to support management decisions and budget requests at all levels of the organization.

After three years of coordinated effort involving hundreds of meetings with program managers (PMs) and other officials, the Department reached a major milestone on December 31, 2005 by completing the initial valuation of all known military equipment (ME) programs. Now, the Department is preparing to take the next step, establishing military equipment baseline balances for year-end financial reporting by the end of Fiscal Year (FY) 2006. Once the ME baseline is established and the ME system is capturing the necessary program and expenditure information, the Department will be in a position to request an audit of these military equipment balances. In preparation for that audit, the Components must be able to assert that:

- Reported ME exists (existence)
- All ME that exists is reported (completeness)
- All ME is properly valued (valuation)
- The Department owns the ME that is reported (rights and obligations)
- The ME is reported in accordance with the accounting standards (presentation and disclosure)

To assist the Department in its efforts, the DoD IG has developed a general overview of what is entailed in each assertion and what information is required to support each assertion. That information is summarized at Attachment 1.

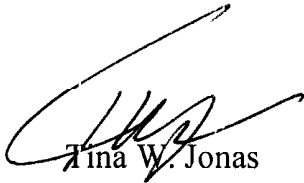


In order for the Department to assert that it is ready for audit, the following specific actions must be taken:

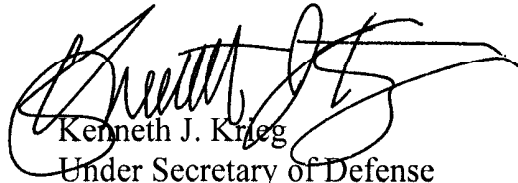
- PMs and/or inventory managers must provide their FY 2006 asset acquisitions and dispositions through June 30, 2006 no later than July 5, 2006. After that, these managers will update the ME database quarterly with all new deliveries and disposals since the last update. The purpose of these efforts is to maintain an accurate account of military equipment balances. Information technology tools have already been provided to your military equipment program offices to assist in this asset update process.
- By October 16, 2006, the Deputy Director, Acquisition Resources and Analysis (Property and Equipment Policy) (P&EP) will provide a report to the Military Departments' Financial Management Offices; the Director of Management, Special Operations Acquisition and Logistics Center for the Special Operations Command; and the Director, Defense Threat Reduction Agency. This report will identify the ME program information used to compute the values included in the FY2006 year-end financial statements.
- The Components referenced above will validate this information, identify required changes, and provide an attestation as to the accuracy of the information (revised as needed) used by the P&EP Office to compute ME values to the Deputy Director, P&EP by November 10, 2006.
- By December 1, 2006, the Deputy Director, P&EP will provide ME values by Component with an assertion that the related military equipment has been valued properly to the Assistant Secretaries for Financial Management and Comptroller for the Military Departments; the Director of Management, Special Operations Acquisition and Logistics Center for the Special Operations Command; and the Director, Defense Threat Reduction Agency.
- By December 31, 2006, the Military Department Assistant Secretaries for Financial Management and Comptroller or the Comptroller for affected Defense Agencies, will represent that the values for ME are auditable, that the ME exists, that all ME assets owned by the Components have been included, and that ME has been reported in accordance with applicable accounting standards.

The valuation assertion process, and a suggested methodology for meeting the existence, completeness, and rights assertion requirements within each Component, is discussed in Attachment 2. Training on the ME assertion process will be provided during the third quarter of FY 2006 to PMs and identified points of contact. The training will provide the information needed to understand and comply with the requirements described above.

Your participation in, and support of, the ME valuation effort is critical to Department of Defense efforts to improve financial management and achieve a favorable audit opinion. Questions concerning this memorandum should be directed to Mr. Richard Sylvester, Deputy Director, Property and Equipment Policy Office, at 703-604-6350, extension 121 or by e-mail to richard.sylvester@osd.mil.



Tina W. Jonas
Under Secretary of Defense
(Comptroller)



Kenneth J. Krieg
Under Secretary of Defense
(Acquisition, Technology and Logistics)

Attachments:
As stated.

cc:
Director, Defense Finance and Accounting Service
Director, Missile Defense Agency
DoD Inspector General

ASSERTION REQUIREMENTS IDENTIFIED BY THE DODIG

Attachment 1

Audit Requirements

The following guidance is provided relative to the types of information that will be needed to support the reported values of military equipment (ME):

- Existence – Auditors will test to ensure that all assets identified and reported in the financial statements as ME actually exist. Auditors will also reconcile the Component property accountability systems of record to Capital Asset Management System – Military Equipment (CAMS-ME) asset records.
- Completeness – Auditors will test to ensure that all ME programs have been identified and that all military equipment is included in the amounts reported.
- Ownership and Rights – Auditors will test to ensure that reported ME assets belong to the entity and the entity has the right to their use.
- Valuation – Auditors will test all contributing factors (useful life, acceptance date, program value, etc.) to ensure that ME is reported at appropriate amounts. For accuracy, auditors will test the reconciliations and the universe of transaction activity.
- Presentation and Disclosure – Auditors will test the footnotes related to ME for compliance with accounting standards requirements and will trace the amounts disclosed to the general ledger and detailed supporting records.

To fully support the assertion that ME is auditable, DoD management should at least demonstrate that:

- All core ME systems and control procedures are identified and documented (existence, completeness, rights, valuation, and presentation).
- All ME accounting transactions are properly summarized and reconciled and can be traced from one system to the next, i.e., an audit trail exists (existence, completeness, rights, valuations, and presentation).
- All identified audit issues relating to ME have been resolved (existence, rights, valuation, presentation and completeness).
- All ME assets are included, valid, and accurate, i.e., recorded at the correct amounts (existence, completeness, rights, and valuation).
- Financial statement presentation and footnotes for ME meet all applicable disclosure requirements (presentation and disclosure).

ASSERTION PROCESS

Attachment 2

Recommended Assertion Process

Representatives from the Office of the Under Secretary of Defense (Acquisition, Technology and Logistics) (AT&L), Property and Equipment Policy (P&EP) Office contacted Program Managers (PMs) and asked them to update information relating to acquisitions, disposals, programs managed, program funding (e.g., changes in budgeted amounts), and the data fields used by the PMs to track their expenditure information in the accounting system. For military equipment valuation purposes, the summary of the data fields used to capture the accounting information has been referred to as the financial account codes (FACs). For example, the Management Resource Reference Numbers (MRRN) is the FAC for the Army and the Budget Program Activity Code (BPAC) is the FAC for the Air Force.

An information technology tool was provided to program offices on January 3, 2006 to assist points of contact (POCs) with the updates of acquisition and disposal information for assets acquired or disposed of between the date of the initial baseline valuation and September 30, 2005. This tool should also be used to complete the updates of assets acquired or disposed of from October 1, 2005 through June 30, 2006. The Components must provide input, by July 5, 2006, even in situations where there are no changes from previously reported information. This update will be used to develop a value for inclusion in DoD's third quarter financial statements. *This will be a significant change. Currently the Department estimates the value of military equipment based on information provided by the Bureau of Economic Analysis.*

A new web-based portal tool will be made available to Components POCs¹ by late August 2006 to support the yearend financial reporting process. This tool will be used to update asset acquisition and disposal information as of September 30, 2006. This update must be completed by October 5, 2006.

In addition, by October 16, 2006, the P&EP Office will provide each Component Financial Management Office with a report that summarizes the following information:

- **Valuation** - Budget Authority (BA) through FY 2006, projected number of end items associated with this BA, program useful life, program Financial Account Codes, and, if applicable, waiver category.
- **Completeness** – Listing of programs by program manager.

¹ The point of contact will be the Deputy Assistant Secretary for Financial Management and Comptroller for the Military Departments, the Director of Management within the Special Operations Acquisition and Logistics Center (SOAL-M) for the Special Operations Command (SOCOM) and the Director for the Defense Threat Reduction Agency (DTRA).

- **Existence** – Listing of assets by program, along with their acquisition date and disposal date (if applicable).

The Components should develop and implement a process to validate this information, to identify required changes and to provide an attestation as to the accuracy of the information (revised as needed) to the Deputy Director, P&EP, by November 10, 2006. Based on these attestations, by December 1, 2006, the Deputy Director, P&EP will provide ME values by Component, along with an assertion that the related ME has been valued properly, to the Assistant Secretaries for Financial Management and Comptroller (FM&C) for the Military Departments; the Director of Management, Special Operations Acquisition and Logistics (SOAL-M) Center for the Special Operations Command (SOCOM); and the Director, Defense Threat Reduction Agency (DTRA).

In addition to providing the attestation to support the ME valuations, Components are responsible for the assertions relative to existence, completeness, rights and obligations, presentation and disclosure, and for overall audit readiness. The following methodology may assist the Components in addressing these requirements.

The Component Financial Management Office² should forward the October 16, 2006 P&EP Office reports to the PMs and item managers that are best able to validate the program information. These individuals should be asked to identify required adjustments and to attest that, to the best of their knowledge, the information, revised as needed, is accurate. These PM and item manager attestation packages, should be forwarded to the responsible Program Executive Officer (PEO) or System Command (SYSCOM) Commander. The PEO or SYSCOM Commander should consolidate the PMs' attestations, validate that the consolidated information is accurate, and transmit it to the Component Acquisition Executive (CAE). The CAEs will then validate the information and forward it to the Deputy Director, Acquisition Resources and Analysis (P&EP) and their respective Component Assistant Secretaries for Financial Management and Comptroller. This consolidated information will provide them with a basis for asserting that the ME exists, that all ME assets owned have been included in the amount reported and that ME has been reported in accordance with applicable accounting standards.

By December 1, 2006, the Deputy Director, P&EP will also provide the Assistant Secretaries for FM&C for the Military Departments, the Director of Management,

² The point of contact will be the Deputy Assistant Secretary for Financial Management and Comptroller for the Military Departments, the Director of Management (SOAL-M) within the Special Operations Acquisition and Logistics Center for the Special Operations Command (SOCOM) and the Director for the Defense Threat Reduction Agency (DTRA).

SOAL-M for SOCOM and the Director, DTRA with additional documentation needed to support the assertion process for military equipment. This will include documentation relating to ME processes, transactions supporting the valuations, status of actions responding to audit recommendations, existing internal controls, etc., which is required by the Under Secretary of Defense (Comptroller) (USD(C)) June 23, 2004 memorandum, entitled, "Financial Improvement Initiative Business Rules". The Components will be responsible for providing documentation relating to their financial and related feeder systems.

These assertions, in total, will provide the Military Department Assistant Secretaries for FM&C; the Comptroller SOCOM; the Comptroller, DTRA; and the USD(C) with the information needed to make the December 31, 2006 representations required by the Financial Improvement and Audit Readiness (FIAR) plan.